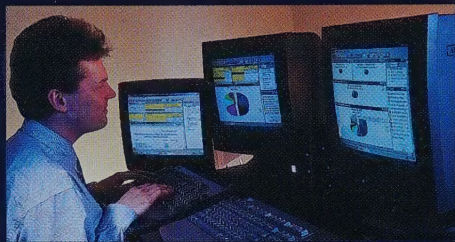


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2000 annual report



*...The Right
Direction...*

VECTOR
A E R O S P A C E

Investor Information

The Company's common shares are listed on the Toronto Stock Exchange under the symbol RNO. The following table sets forth the reported high, low and closing share prices, as well as volumes of the shares traded for the periods indicated.

Toronto Stock Exchange

2000 Fiscal Year	High	Low	Close	Volume
First Quarter	8.00	5.75	6.60	5,073,573
Second Quarter	6.50	5.10	5.60	1,857,581
Third Quarter	5.90	5.00	5.15	1,308,450
Fourth Quarter	5.50	3.70	4.25	3,081,704

Transfer Agent and Registrar

Requests for information
covering dividend payments,
lost share certificates, address
changes or other shareholder
information should be directed to:

Computershare Trust Company of Canada

1465 Brenton Street
Halifax, Nova Scotia
Canada, B3J 3S9
Telephone: (902) 420-2211
Facsimile: (902) 420-2764
email: caregistryinfo@computershare.com

Annual Meeting

The Annual Meeting of the
Shareholders of Vector Aerospace
Corporation will be held:
Wednesday, April 25, 2001 at 4:00 p.m.

Royal York Hotel

100 Front Street West
Toronto, Ontario
Canada

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Highlights

Revenue	\$ 297.6 Million
EBITDA	\$ 46.9 Million
Net earnings	\$ 20.7 Million

Results at a Glance

(in thousands of Canadian dollars, except per share amounts)

	2000	1999
Operating Summary		
Revenue	\$ 297,609	\$ 268,119
EBITDA	46,877	41,332
Net earnings	20,665	20,309

Financial Position

Working capital	\$ 90,842	\$ 92,395
Total assets	403,577	326,331
Long-term debt	93,585	86,176
Total debt	161,013	145,271
Shareholders' equity	138,721	115,117
Total debt to equity ratio	1.2:1	1.3:1

Per Share

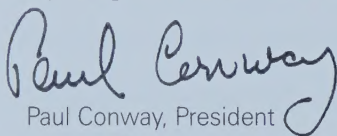
Weighted average number of common shares outstanding	28,346	28,058
EBITDA	\$1.65	\$1.47
Net earnings (basic and fully diluted)	\$0.73	\$0.72

Management's Responsibility for Financial Reporting

Management is responsible for the integrity and objectivity of the financial information presented in this Annual Report. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The financial information presented elsewhere in this report is consistent with that shown in the accompanying consolidated financial statements.

Management is also responsible for developing and maintaining the necessary systems of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded and that the financial records form a reliable base for the preparation of accurate and timely financial information.

The Board of Directors is responsible for ensuring management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee of the Board of Directors, which consists solely of non-management directors, reviews the consolidated financial statements and recommends them to the Board for approval. The shareholders' auditors have full and unrestricted access to the Board of Directors and the Audit Committee and meet periodically with them to discuss audit, financial reporting and related matters.



Paul Conway, President
& Chief Operating Officer

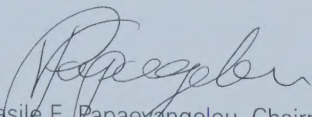


Maxwell Parsons, Vice President,
Chief Financial Officer & Secretary

Audit Committee Report

To the Shareholders of Vector Aerospace Corporation

The Audit Committee oversees the financial reporting process on behalf of the Board of Directors. In order to carry out this responsibility, the Committee, composed entirely of Directors independent of management, meets quarterly to review the Company's financial statements and recommends their approval to the Board of Directors. The Audit Committee also reviews, on a continuing basis, any reports prepared by the Company's external auditors relating to its accounting policies and procedures, as well as its internal controls. Financial information prepared for securities commissions and such regulatory bodies is also examined by the Audit Committee before filing. The Committee meets independently with management and the external auditors to review the involvement of each in the financial reporting process. These meetings are designed to facilitate any private communication with the Committee desired by each party. The Audit Committee recommends the appointment of the Company's external auditors, who are elected annually by the Company's shareholders.



Basile E. Papaangelou, Chairman of the Audit Committee

Auditors' Report

To the Shareholders of Vector Aerospace Corporation

We have audited the consolidated balance sheets of Vector Aerospace Corporation as at December 31, 2000 and 1999 and the consolidated statements of earnings, shareholders' equity and cash flow for the years then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 2000 and 1999 and the results of its operations and its cash flow for the years then ended in accordance with accounting principles generally accepted in Canada.

Ernst & Young LLP

Chartered Accountants

St. John's, Canada

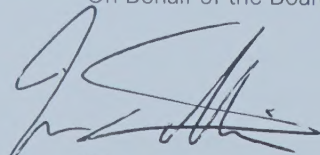
January 31, 2001

Consolidated Balance Sheets

December 31 (in thousands of Canadian dollars)
Incorporated under the laws of Canada

	2000	1999
Assets (Note 7)		
Current assets		
Receivables (Note 11)	\$ 58,957	\$ 55,602
Work in progress	75,108	57,657
Inventory	114,248	94,587
Prepaid expenses	1,913	2,069
	250,226	209,915
Capital assets (Note 5)	91,439	66,885
Goodwill and other assets (Note 6)	61,912	49,531
	\$ 403,577	\$ 326,331
Liabilities		
Current liabilities		
Bank indebtedness (Note 7)	\$ 45,015	\$ 48,881
Payables and accruals	76,852	43,626
Deferred revenue	2,886	3,313
Income taxes payable	9,679	9,113
Future income tax liability (Note 12)	2,539	2,373
Current portion of long-term debt (Note 7)	22,413	10,214
	159,384	117,520
Long-term debt (Note 7)	93,585	86,176
Other credits (Note 8)	11,887	7,518
Shareholders' equity	138,721	115,117
	\$ 403,577	\$ 326,331
Commitments (Note 16)		

On Behalf of the Board


Director


Director

See accompanying notes

Consolidated Statements of Earnings

For the year ended December 31
(in thousands of Canadian dollars, except per share amounts)

	2000	1999
Revenue	\$ 297,609	\$ 268,119
Operating expenses	<u>250,732</u>	<u>226,787</u>
Earnings before undernoted items	46,877	41,332
Amortization	<u>4,846</u>	<u>3,535</u>
Earnings from operations	42,031	37,797
Interest expense (Note 7)	<u>10,486</u>	<u>7,028</u>
Earnings before income taxes	31,545	30,769
Income taxes (Note 12)	<u>10,880</u>	<u>10,460</u>
Net earnings	\$ 20,665	\$ 20,309
Net earnings per share (Note 13)	\$ 0.73	\$ 0.72

See accompanying notes

Consolidated Statements of Shareholders' Equity

For the year ended December 31
(in thousands of Canadian dollars)

	2000	1999
Retained earnings, beginning of year as originally stated	\$ 28,238	\$ 7,929
Future income tax adjustment (Note 3)	<u>3,783</u>	<u>—</u>
Retained earnings, beginning of year as restated	32,021	7,929
Net earnings	<u>20,665</u>	<u>20,309</u>
Retained earnings, end of year	52,686	28,238
Capital stock (Note 9)	88,996	88,851
Currency translation adjustment (Note 10)	<u>(2,961)</u>	<u>(1,972)</u>
Total shareholders' equity	\$ 138,721	\$ 115,117

See accompanying notes

Consolidated Statements of Cash Flow

For the year ended December 31
(in thousands of Canadian dollars)

	2000	1999
Operating activities		
Earnings from operations	\$ 42,031	\$ 37,797
Item not involving cash		
Amortization	4,846	3,535
Cash flow from operations before interest and income taxes	46,877	41,332
Interest expense	(10,486)	(7,028)
Current income taxes	(8,190)	(7,718)
Cash flow from operations before change in non-cash working capital	28,201	26,586
Change in non-cash working capital (Note 14)	(8,951)	(17,079)
	19,250	9,507
Financing activities		
(Decrease) increase in bank indebtedness	(3,174)	18,663
Long-term debt borrowings	39,901	36,264
Long-term debt repayments	(19,986)	(9,887)
Government grants (Note 8)	4,114	—
Capital stock issuances	145	123
	21,000	45,163
Investing activities		
Business acquisitions (Note 4)	(2,438)	(37,927)
Capital asset additions	(29,391)	(13,514)
Other assets	(8,992)	(1,405)
Other	571	(1,824)
	(40,250)	(54,670)
Change in cash, and balance beginning and end of year	\$ —	\$ —
See accompanying notes		

Notes to the Consolidated Financial Statements

December 31, 2000 and 1999
(Tabular amounts in thousands)

1. Basis of presentation

Vector Aerospace Corporation (the "Corporation") is a leading independent provider of aviation repair and overhaul services. Through facilities in Canada, the United States and the United Kingdom it provides services to commercial and military customers for various types of gas turbine engines, components and helicopter airframes. These consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries and have been prepared by management in accordance with accounting principles generally accepted in Canada.

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. By their nature these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be material.

2. Summary of significant accounting policies

Translation of foreign currencies

Transactions denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the beginning of the month in which the transaction occurred. Monetary assets and liabilities are translated into Canadian dollars at the year-end exchange rate. Non-monetary items are translated at historical rates. All exchange gains and losses are included in earnings, except for unrealized exchange gains and losses on translation of long-term debt which are deferred and amortized on a straight-line basis over the remaining term of the debt.

The Corporation's foreign subsidiaries are financially and operationally self-sustaining. Accordingly, their assets and liabilities are translated into Canadian dollars at the year-end exchange rates. Revenue and expense items are translated at monthly exchange rates. The resulting gains or losses are deferred as a separate component of shareholders' equity until realized.

Inventory

Inventory, consisting primarily of aircraft parts, is valued at the lower of average or actual cost, and net realizable value or replacement cost, as applicable. The cost of overhauled inventory includes the cost of raw materials, direct labour and related overhead.

Notes to the Consolidated Financial Statements

December 31, 2000 and 1999
(Tabular amounts in thousands)

2. Summary of significant accounting policies (cont'd.)

Capital asset amortization

Capital assets are amortized over their estimated useful lives as follows:

Asset	Method	Rate
Equipment	Declining balance	10% to 20%
Buildings and test cells	Declining balance	5%
Leasehold improvements	Straight-line	Term plus one renewal

Goodwill

Goodwill represents the excess of the cost of investments in subsidiaries over the fair value of the net underlying identifiable assets acquired and is amortized to earnings on a straight-line basis, over its estimated life of forty years. The carrying value of goodwill is evaluated for potential permanent impairment on an ongoing basis. In order to determine whether permanent impairment exists, management considers financial condition, as well as expected pre-tax earnings, cash flows or market-related values. Any permanent impairment in the value of goodwill is written off against earnings in the year the impairment is recognized.

Licence fees

Licence fees are amortized at variable percentages of cost ranging from 2% to 6% over twenty years based on the expected benefit to be derived in each year.

Deferred charges

Deferred charges are amortized on a straight-line basis to a maximum of five years.

Pre-operating expenses

The Corporation capitalizes expenditures net of incremental revenues incurred to develop significant new lines of business. Capitalization occurs where the expenditure is incremental in nature and directly related to placing the new business into service, and where, in the view of management, it is probable that the expenditure is recoverable from the future operations of the new business. Capitalization ceases when the business is ready to commence commercial operations. Pre-operating expenses are amortized at accelerated rates ranging from 10% to 28% of cost over a period of five years to match the pattern of projected revenues.

Notes to the Consolidated Financial Statements

December 31, 2000 and 1999
(Tabular amounts in thousands)

2. Summary of significant accounting policies *(cont'd.)*

Provision for renewal of rental engines

Overhaul and maintenance costs associated with the renewal of rental engines are expensed using an overhaul provision which accrues the estimated future cost of an overhaul over the service life of the engine based on flight hours. Actual expenditures related to the renewal of the rental engines are charged against the provision.

Government assistance

Government assistance relating to the acquisition of facilities and equipment is recorded as a deferred credit. These credits are amortized over the lives of the assets to which they relate on the same basis as the asset is amortized. Government assistance relating to operations is applied against the related expense at the time earned.

Warranty provision

The estimated liability for costs to be incurred as a result of future warranty claims is recorded in the period in which the revenue is recognized on the basis of warranty terms and historical experience.

Revenue recognition

Revenue, including revenue on contracts which is invoiced prior to work being performed, is recognized on the percentage of completion basis and measured on the basis of the sales value of actual costs incurred and work performed. Anticipated losses, if any, are fully provided for in the period in which they become apparent.

Pension costs and obligations

The Corporation has defined contribution and defined benefit pension plans covering its employees. In valuing pension obligations for its defined benefit plans, the Corporation uses the accrued benefit actuarial method prorated on services and best estimate assumptions. Pension plan assets are valued at current market values. Adjustments to pension costs are amortized on a straight-line basis over the expected average remaining service life of the plan participants.

Income taxes

Effective January 1, 2000 the Corporation adopted the liability method of accounting for income taxes (Note 3). Under this method future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and measured using the tax rates substantially enacted at the balance sheet date.

Notes to the Consolidated Financial Statements

December 31, 2000 and 1999
(Tabular amounts in thousands)

2. Summary of significant accounting policies *(cont'd.)*

Stock-based compensation plans

The Company has two stock-based compensation plans which are described in Note 9. No compensation expense is recognized for these plans when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital.

Interest rate risk management

The Corporation has entered into interest rate swap agreements in order to manage the interest rate exposure associated with certain long-term debt obligations. Payments and receipts under interest rate swap agreements are recognized as adjustments to interest expense.

Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

3. Change in accounting policies

Future income taxes

The Canadian Institute of Chartered Accountants has issued a new accounting standard with respect to future income taxes, which has been adopted by the Corporation effective January 1, 2000. The Corporation has changed from the deferral method to the liability method of accounting for future income taxes retroactively without restatement of prior period financial statements. As a result of the change the Corporation increased shareholders' equity at January 1, 2000 by \$3,783,000 with a corresponding increase in net future income tax assets.

Employee future benefits

Effective January 1, 2000 the Corporation also adopted the new accounting standard with respect to employee future benefits. Adoption of this standard had no impact on the current or prior year's results or financial position.

Notes to the Consolidated Financial Statements

December 31, 2000 and 1999
(Tabular amounts in thousands)

4. Business acquisitions

During 1999 the Corporation acquired the shares and net assets of the various entities in the Helipro Group of Companies ("Helipro"). The purchase consideration of \$38,985,000 consisted of \$27,500,000 in cash including acquisition costs, a \$7,405,000 promissory note payable bearing interest at 8%, and 800,000 common shares of the Corporation with an ascribed value of \$4,080,000 (Note 9). Additional purchase consideration, to a maximum of \$7,300,000, is subject to earnings in excess of a base amount.

In 1999 the Corporation also acquired the net assets and businesses of various entities now incorporated as Alameda Aerospace Corporation ("Alameda"), for cash consideration of \$10,427,000, including acquisition costs.

Details of the acquisitions are as follows:

	Helipro	Alameda	Total
Purchase consideration			
Cash	\$ 27,500	\$ 10,427	\$ 37,927
Promissory note payable	7,405	—	7,405
Common shares	4,080	—	4,080
	<u>\$ 38,985</u>	<u>\$ 10,427</u>	<u>\$ 49,412</u>
Fair values assigned to the net assets			
Working capital	\$ 10,386	\$ (1,755)	\$ 8,631
Capital and other assets	4,514	12,916	17,430
Long-term debt	(690)	(734)	(1,424)
Goodwill	24,775	—	24,775
	<u>\$ 38,985</u>	<u>\$ 10,427</u>	<u>\$ 49,412</u>

The acquisitions were accounted for as purchases with the results of the operations from the effective dates of acquisition included in the consolidated financial statements.

During the year the Corporation recorded contingent purchase consideration which has been allocated to goodwill of \$2,438,000 related to acquisitions completed in prior years.

Notes to the Consolidated Financial Statements

December 31, 2000 and 1999
(Tabular amounts in thousands)

5. Capital assets

	2000	1999
Equipment		
Cost	\$ 78,842	\$ 62,643
Accumulated amortization	(19,555)	(14,905)
Provision for renewal of rental engines	(1,193)	(817)
	58,094	46,921
Buildings and test cells		
Cost	27,466	15,097
Accumulated amortization	(2,556)	(1,697)
	24,910	13,400
Leasehold improvements		
Cost	12,093	9,174
Accumulated amortization	(3,658)	(2,610)
	8,435	6,564
	\$ 91,439	\$ 66,885

Included in equipment are assets under a capital lease with a cost of \$5,608,000 (1999 - \$Nil) and accumulated amortization of \$45,000 (1999 - \$Nil) (Note 7).

Amortization on capital assets under development totaling \$14,988,000 (1999 - \$16,956,000) will commence when they are put in productive use.

Interest capitalized on capital assets during the year was \$335,000 (1999 - \$Nil).

Notes to the Consolidated Financial Statements

December 31, 2000 and 1999
(Tabular amounts in thousands)

6. Goodwill and other assets

	2000	1999
Goodwill, less accumulated amortization of \$1,088,000 (1999 - \$479,000)	\$ 26,113	\$ 24,296
Licence fees, less accumulated amortization of \$183,000 (1999 - \$Nil)	22,669	21,245
Pre-operating expenses, less accumulated amortization of \$112,000 (1999 - \$34,000)	8,356	1,260
Future income tax asset (Note 12)	1,808	—
Non-interest bearing stock purchase loans to employees	1,852	2,085
Deferred charges and other - less accumulated amortization of \$263,000 (1999 - \$113,000)	1,114	645
	<u>\$ 61,912</u>	<u>\$ 49,531</u>

The non-interest bearing stock purchase loans to employees are full recourse, have as collateral a pledge of the related shares purchased, and are required to be repaid over a maximum of ten years.

Amortization of licence fees under development totaling \$2,341,000 (1999 - \$21,245,000) will commence when they are put in productive use.

Interest capitalized during the year related to licences was \$708,000 (1999 - \$32,000).

Notes to the Consolidated Financial Statements

December 31, 2000 and 1999
(Tabular amounts in thousands)

7. Bank indebtedness and long-term debt

	2000	1999
Bank indebtedness		
Canadian dollar (BA + 1.25%)	\$ 27,571	\$ 25,987
U. S. dollar (LIBOR + 1.25% and Prime + 0.5%) (December 31, 2000 - U.S.\$1,821,000; 1999 - U.S.\$7,400,000)	2,731	10,648
Pounds Sterling (Base rate + 1%) (December 31, 2000 - £6,559,000; 1999 - £5,220,000)	14,713	12,246
	\$ 45,015	\$ 48,881

Long-term debt

Interest Rates	Repayment Terms	Maturity Dates	2000	1999
Term loans				
BA + 1.5%	Quarterly	April 2004	\$ 45,000	\$ 52,500
7.2%	Annually	August 2010	20,000	—
Base rate + 1%	Quarterly	February 2005	13,618	17,585
7%	Semi-annually	March 2005	12,059	16,271
Base rate + 1.4%	Quarterly	December 2010	8,973	—
Base rate + 2%	Quarterly	March 2001	2,355	—
6.5% to 9.5%	Monthly	Various to July 2008	3,494	3,435
Capital lease obligation				
Base rate + 1.4%	Monthly	December 2010	5,608	—
Unsecured promissory note 8% (Note 4)				
	Quarterly	April 2003	4,891	6,599
Total long-term debt			115,998	96,390
Less: current portion			22,413	10,214
			\$ 93,585	\$ 86,176

Notes to the Consolidated Financial Statements

December 31, 2000 and 1999
(Tabular amounts in thousands)

7. Bank indebtedness and long-term debt (cont'd.)

Collateral

As collateral for the Canadian and U.S. dollar bank indebtedness and the BA + 1.5% term loan the Corporation has provided a general security agreement creating a first ranking mortgage security interest over certain property and equipment and a general assignment of specified receivables and inventory.

As collateral for the Pounds Sterling bank indebtedness, the Base rate + 1% term loan, the Base rate + 1.4% term loan and the Base rate + 2% term loan the Corporation has provided a charge over specific freehold property and a floating charge debenture over specified assets.

As collateral for the 7.2% term loan the Corporation has provided a general security agreement over specified equipment and inventory.

As collateral for the 7% term loan the Corporation has pledged licences with a net book value of \$22,669,000.

Foreign currency

Long-term debt included above denominated in foreign currencies and the Canadian dollar equivalent is as follows:

	2000	1999
U.S. dollar debt - U.S.\$8,841,000 (1999 - U.S.\$12,160,000)	\$ 13,261	\$ 17,510
Pounds Sterling debt - £14,069,000 (1999 - £8,045,000)	31,558	18,868
	\$ 44,819	\$ 36,378
Interest		
Interest on short-term debt	\$ 3,812	\$ 2,864
Interest on long-term debt	6,674	4,164
	\$ 10,486	\$ 7,028

Interest paid during the period was \$10,794,000 (1999 - \$6,988,000).

The applicable variable interest rates at December 31, 2000 were: Bankers' Acceptance ("BA") - 5.8% (1999 - 5.2%), LIBOR - 6.6% (1999 - 6.2%), U.S. Prime - 9.5% (1999 - 8.5%) and Base rate - 6.0% (1999 - 5.5%).

At December 31, 2000 the Corporation had in place interest rate swap agreements to exchange variable interest rates on its Canadian bank indebtedness and BA + 1.5% term loan for fixed interest rates (Note 11).

Notes to the Consolidated Financial Statements

December 31, 2000 and 1999
(Tabular amounts in thousands)

7. Bank indebtedness and long-term debt (cont'd.)

Repayment requirements

As at December 31, 2000 principal repayment requirements over the next five years are as follows:

2001	\$ 22,413
2002	21,618
2003	20,931
2004	22,703
2005	4,683

Included in the above repayment requirements are annual minimum lease payments under a capital lease obligation of \$561,000 per year.

At December 31, 2000 the Corporation had in place lines of credit totaling \$65,896,000 (1999 - \$66,692,000) including \$17,946,000 or £8,000,000 denominated in Pounds Sterling (1999 - \$18,760,000 or £8,000,000). Availability of these lines is based on percentages of certain receivables and inventory.

Outstanding borrowings and letters of credit totaled \$46,082,000 including \$15,635,000 or £6,970,000 denominated in Pounds Sterling at December 31, 2000 (1999 - \$51,600,000 including \$15,000,000 or £6,400,000 denominated in Pounds Sterling).

8. Other credits

	2000	1999
Deferred government assistance, less accumulated amortization of \$514,000 (1999 - \$234,000)	\$ 6,680	\$ 2,846
Accrued pension benefit liability (Note 17)	3,017	2,480
Future income tax liability (Note 12)	2,257	1,735
Deferred foreign exchange (loss) gain	(67)	457
	<u>\$ 11,887</u>	<u>\$ 7,518</u>

Notes to the Consolidated Financial Statements

December 31, 2000 and 1999
(Tabular amounts in thousands)

9. Capital stock

Authorized:

Unlimited number of :

Common shares

First preferred shares

Second preferred shares

Issued common shares:

	2000		1999	
	Number	Stated Capital	Number	Stated Capital
Balance, beginning of year	28,333	\$ 88,851	27,511	\$ 84,648
Issued under employee share purchase plan for cash	30	145	22	123
Issued on businesses acquisition (Note 4)	—	—	800	4,080
Balance, end of year	28,363	\$ 88,996	28,333	\$ 88,851

Under the employee stock option plan, the Corporation may grant options to certain officers and employees for up to 2,750,000 common shares. The options may be exercised within a period of ten years from the date of granting of the option at exercise prices equal to the market price of the Corporation's stock on the date of grant.

Twenty-five percent of the options vest on the date of granting and twenty-five percent vest on each of the three succeeding anniversary dates. Total options vested at December 31, 2000 were 1,405,000 (1999 - 821,250) at a weighted average exercise price of \$7.74 (1999 - \$8.11).

A summary of the status of the Corporation's employee stock option plan is as follows:

	Number	Weighted Average Exercise Price	Expiry Date
Outstanding December 31, 1998	1,300	\$ 8.50	June 2008
Granted			
February 1999	343	\$ 5.15	February 2009
December 1999	342	\$ 8.10	December 2009
Balance, December 31, 1999	1,985	\$ 7.85	
Granted			
December 2000	350	\$ 3.70	December 2010
Balance, December 31, 2000	2,335	\$ 7.23	

Additionally, at December 31, 2000 1,312,000 (1999 - 1,342,000) common shares have been reserved under an employee share purchase plan.

Notes to the Consolidated Financial Statements

December 31, 2000 and 1999
(Tabular amounts in thousands)

10. Foreign currency

	2000	1999
Currency translation adjustment		
Balance, beginning of year	\$ (1,972)	\$ 1,124
Translation adjustment during year	(989)	(3,096)
Balance, end of year	\$ (2,961)	\$ (1,972)

Year-end exchange rates

Balance sheet accounts denominated in foreign currencies and translated at year-end exchange rates have been translated to Canadian dollars at the following rates:

	2000	1999
U.S. Dollars	1.50	1.44
U.K. Pounds Sterling	2.24	2.35

11. Financial instruments

The carrying values of the primary and derivative financial instruments of the Corporation, with the exception of long-term debt, approximate fair values due to the short term maturities and normal trade credit terms of those instruments.

The fair value of long-term debt, which approximates carrying value, has been estimated based upon the present value of expected cash flows at the rates available to the Corporation for debt with similar terms and remaining maturities.

The Corporation provides services and sells its products to many customers across different geographic areas. No customer accounts for more than 10% of the Corporation's sales. Three customers represent 19% (1999 - 27%) of sales and 5% (1999 - 24%) of receivables. Due to the long-standing relationships and contractual arrangements the Corporation is not unusually concerned with the credit risk related to these customers.

The Corporation operates under various licencing arrangements with original equipment manufacturers and associated distributors for the supply of parts for its various product lines. Purchases from three parts suppliers during the year account for approximately 27% (1999 - 32%) of operating expenses.

The Corporation has entered into, for hedging purposes, two interest rate swap transactions (the "Swap Transactions") with a Canadian chartered bank. The Swap Transactions expire on November 16, 2001 and December 14, 2002. They involve the exchange of three-month bankers' acceptance floating interest rates for fixed interest rates of 5.995% and 5.57% respectively, per annum. As at December 31, 2000 the notional amount of the Swap Transactions was \$25,000,000 each for a total of \$50,000,000. The fair value of the Swap Transactions at December 31, 2000 was nominal.

Notes to the Consolidated Financial Statements

December 31, 2000 and 1999
(Tabular amounts in thousands)

12. Income taxes

	2000	1999
Earnings before income taxes	\$ 31,545	\$ 30,769
Combined federal and provincial statutory income tax rates	43%	43%
Income tax calculated at statutory rates	13,564	13,231
Increase (decrease) in taxes resulting from:		
Lower tax rate on earnings of subsidiaries	(2,851)	(3,286)
Amortization of goodwill	246	(667)
Non-deductible expenses	134	301
Capital tax	675	630
Change in estimate of realization of future tax assets	(521)	—
Other	(367)	251
Provision for income taxes at effective rate of 34% (1999 - 34%)	\$ 10,880	\$ 10,460
The provision includes:		
Current income taxes	\$ 8,190	\$ 7,718
Future income taxes	2,690	2,742
	\$ 10,880	\$ 10,460

Income tax paid during the year was \$6,953,000 (1999 - \$4,133,000).

Significant components of the Corporation's future tax assets and liabilities as of December 31, 2000 are as follows:

Future tax liabilities

Tax amortization in excess of accounting amortization	\$ 4,765
Deferral of profit on work in progress	2,781
Deferred costs	413
Other (net)	1,426
Total future tax liabilities	\$ 9,385

Notes to the Consolidated Financial Statements

December 31; 2000 and 1999
(Tabular amounts in thousands)

12. Income taxes (cont'd.)

Future tax assets	
Tax goodwill	\$ 12,247
Post-employment obligation	1,177
Warranties and other reserves	1,127
Loss carryforwards	<u>1,025</u>
Total future tax assets	15,576
Valuation allowance on future tax assets	<u>(9,179)</u>
Net future tax assets	<u>6,397</u>
Net future tax liabilities	<u>\$ 2,988</u>
Distributed as follows:	
Current future income tax liability	\$ 2,539
Long-term future income tax liability	2,257
Long-term future income tax asset	<u>(1,808)</u>
	<u>\$ 2,988</u>

13. Per share information

Net earnings per share has been calculated using the weighted average number of common shares outstanding of 28,346,000 (1999 - 28,058,000). The calculation of fully diluted earnings per share assumes that, if a dilutive effect is produced, all outstanding stock options had been exercised at the later of the beginning of the year and the stock option issue date.

Basic and fully diluted earnings per share for the year was \$0.73 (1999 - \$0.72).

14. Change in non-cash working capital

	2000	1999
Receivables	\$ (3,590)	\$ (7,558)
Work in progress	(18,900)	(16,075)
Inventory	(20,551)	(1,055)
Prepaid expenses	147	(1,052)
Payables and accruals	33,569	5,443
Deferred revenue	(863)	(367)
Income taxes payable	<u>1,237</u>	<u>3,585</u>
	<u>\$ (8,951)</u>	<u>\$ (17,079)</u>

Notes to the Consolidated Financial Statements

December 31, 2000 and 1999
(Tabular amounts in thousands)

15. Segmented information

The Corporation provides services through two business segments, fixed-wing and helicopter. The segments derive revenue principally from providing repair and overhaul services on gas turbine engines, components and helicopter airframes. The Corporation evaluates business segment performance based on earnings from operations. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

The fixed-wing segment includes Atlantic Turbines International ("ATI") operating in Summerside, Prince Edward Island; Sigma Aerospace ("Sigma") operating in Croydon, United Kingdom; and Alameda Aerospace ("Alameda") operating in Alameda, California.

The helicopter segment includes ACRO Aerospace ("ACRO") operating in Richmond and Langley, British Columbia and Helipro operating in Richmond and Langley, British Columbia and Bellingham, Washington.

Both segments have smaller regional service facilities and sales and marketing representation in various locations throughout the world.

Prior to January 1, 2000 the Corporation had only one reportable segment. Comparative figures have been restated to conform with the presentation adopted for 2000.

2000

	Segments		Corporate and other	Total
	Fixed-wing	Helicopter		
Revenue from external customers	\$ 169,741	\$ 127,868	\$ —	\$ 297,609
Earnings before interest, income taxes and amortization (EBITDA)	31,656	20,084	(4,863)	46,877
Amortization	(1,771)	(2,274)	(801)	(4,846)
Earnings from operations	29,885	17,810	(5,664)	42,031
Assets employed	216,762	152,506	34,309	403,577
Capital and goodwill expenditures	25,520	5,124	1,238	31,882

1999

	Segments		Corporate and other	Total
	Fixed-wing	Helicopter		
Revenue from external customers	\$ 166,608	\$ 101,511	\$ —	\$ 268,119
Earnings before interest, income taxes and amortization (EBITDA)	32,310	13,533	(4,511)	41,332
Amortization	(1,731)	(1,447)	(357)	(3,535)
Earnings from operations	30,579	12,086	(4,868)	37,797
Assets employed	147,414	131,047	47,870	326,331
Capital and goodwill expenditures	8,300	28,418	1,831	38,549

Corporate and other assets include assets under development.

Notes to the Consolidated Financial Statements

December 31, 2000 and 1999
(Tabular amounts in thousands)

15. Segmented information (cont'd.)

Geographic information	2000		1999	
	Revenues	Capital Assets	Revenues	Capital Assets
Canada	\$ 65,802	\$ 40,389	\$ 60,782	\$ 28,455
United States	113,659	16,497	105,349	15,587
United Kingdom	32,581	34,553	32,339	22,843
Middle East	20,177	—	11,484	—
Other	65,390	—	58,165	—
	\$ 297,609	\$ 91,439	\$ 268,119	\$ 66,885

Revenues are attributed to countries based on location of customers.

Revenue by product	2000		1999	
Gas turbine engines	\$ 218,347	73%	\$ 204,107	76%
Components	54,256	18%	49,434	18%
Helicopter airframes	25,006	9%	14,578	6%
	\$ 297,609	100%	\$ 268,119	100%

16. Commitments

The Corporation has commitments with respect to operating leases. As at December 31, 2000 the minimum lease payments required under such leases were \$35,655,000 payable as follows:

2001	\$ 3,559
2002	2,999
2003	2,582
2004	2,582
2005	2,636
and thereafter	21,297

Notes to the Consolidated Financial Statements

December 31, 2000 and 1999
(Tabular amounts in thousands)

17. Employee pension plans

The Corporation maintains defined contribution and defined benefit pension plans for the majority of its employees. The Corporation's contributions to the defined contribution pension plans are based upon a percentage of gross salaries and for the year ended December 31, 2000 were \$909,000 (1999 - \$763,000).

Information concerning the Corporation's defined benefit pension plans, in aggregate is as follows:

	2000	1999
Change in benefit obligations		
Benefit obligations, beginning of year	\$ 15,499	\$ 12,254
Service cost	1,418	1,334
Interest cost	940	683
Benefits paid	(400)	(264)
Actuarial (gains) losses	(1,014)	2,058
Foreign exchange	(556)	(566)
Benefit obligations, end of year	15,887	15,499
Change in plan assets		
Fair value of plan assets, beginning of year	11,858	10,007
Actual return on plan assets	(63)	1,773
Employer contributions	355	529
Employees' contributions	335	383
Benefits paid	(400)	(264)
Foreign exchange	(556)	(570)
Fair value of plan assets, end of year	11,529	11,858
Funded status	(4,358)	(3,641)
Unamortized net actuarial loss	1,099	908
Unamortized past service costs	242	253
Accrued pension benefit liability	\$ (3,017)	\$ (2,480)

Notes to the Consolidated Financial Statements

December 31, 2000 and 1999

(Tabular amounts in thousands)

17. Employee pension plans *(cont'd.)*

The significant weighted average actuarial assumptions adopted in measuring the Corporation's defined benefit pension plan obligations are as follows:

	2000	1999
Discount rate	5.8%	5.6%
Expected long-term rate of return on plan assets	6.5%	6.2%
Rate of compensation increase	3.7%	3.6%

The Corporation's net defined benefit pension plan expense is as follows:

	2000	1999
Current year service cost	\$ 1,418	\$ 1,334
Interest cost	940	683
Expected return on plan assets	(805)	(621)
Employees' contributions	(335)	(383)
Amortization of net actuarial loss	47	—
Amortization of past service costs	11	11
Net defined benefit plan expense	\$ 1,276	\$ 1,024

Management's Discussion and Analysis

of Financial Condition and Results of Operations

Overview

Vector Aerospace Corporation (the "Corporation") is a leading independent provider of aviation repair and overhaul services. Through facilities in Canada, the United States and the United Kingdom it provides services to commercial and military customers for various types of gas turbine engines, components and helicopter airframes. The Corporation provides services through the fixed-wing and helicopter business segments.

The fixed-wing segment includes Atlantic Turbines International ("ATI") operating in Summerside, Prince Edward Island; Sigma Aerospace ("Sigma") operating in Croydon, United Kingdom; and Alameda Aerospace ("Alameda") operating in Alameda, California.

The helicopter segment includes ACRO Aerospace ("ACRO") operating in Richmond and Langley, British Columbia and Helipro operating in Richmond and Langley, British Columbia and Bellingham, Washington.

Both segments have smaller regional service facilities and sales and marketing representation in various locations throughout the world.

Explanation of Comparative and Current Year Figures

In 1999 the Corporation acquired Helipro and Alameda. Comparative figures include only the results from the date of acquisition. The results of Alameda for the current and prior year have been deferred as pre-operating costs as the operation did not commence commercial operations prior to year-end.

Results of Operations

Revenue

The Corporation generated consolidated revenues of \$297.6 million during the year, up \$29.5 million (11.0%) from the \$268.1 million generated in 1999. Internal growth accounts for \$21.5 million of this increase with the remaining \$8.0 million attributed to the inclusion of Helipro for a full year in 2000.

The Corporation experienced a modest increase in fixed-wing revenue which totaled \$169.7 million during the year, up \$3.1 million (1.9%) from the \$166.6 million for 1999. A significant event for the fixed-wing segment was the mid-year loss at ATI of a major customer for its PW100 product line, which reduced year over year revenue on the PW100 product line by approximately \$18 million. This loss was more than offset by increased revenues from new and existing PW100 customers at ATI, revenue from a new product line at ATI (PT6A) and increased activity at Sigma related to the repair and overhaul of RR Allison T-56 engines for the Royal Saudi Air Force.

Management's Discussion and Analysis

of Financial Condition and Results of Operations

Results of Operations (cont'd.)

Revenue in the helicopter segment increased to \$127.9 million during the year, up \$26.4 million (26.0%) from the \$101.5 million for 1999. As noted above, \$8.0 million of this increase relates to the inclusion of a full year's results from Helipro. The remaining \$18.4 million increase (18.1%) reflects the benefits from joint marketing efforts and from the competitive advantage derived from being the largest and most comprehensive independent helicopter repair and overhaul provider in the world. These benefits include attracting larger customers, yielding higher margins and further diversifying the customer base.

Comparative revenue is as follows:

	Revenue (millions)	
	2000	1999
Segments		
Fixed-wing	\$ 169.7	\$ 166.6
Helicopter	127.9	101.5
Total Revenue	\$ 297.6	\$ 268.1

Earnings before interest, taxes and amortization ("EBITDA")

EBITDA was \$46.9 million (15.8% of revenue) for the year, up \$5.6 million (13.4%) from the \$41.3 million (15.4% of revenue) for 1999. The \$5.6 million increase results from \$3.6 million of internal growth and \$2.0 million of additional EBITDA related to a full year's results from Helipro.

The fixed-wing segment generated EBITDA of \$31.7 million (18.7% of revenue) during the year down \$0.6 million (1.9%) from the \$32.3 million (19.4% of revenue) for 1999. Operating margins remained stable year over year with EBITDA decreasing primarily as a result of reduced productivity at Sigma due to one time costs related to the third quarter European fuel crisis and the relocation to a new test facility completed in the fourth quarter.

The helicopter segment generated EBITDA of \$20.1 million (15.7% of revenue) during the year, up \$6.6 million (48.9%) from the \$13.5 million (13.3% of revenue) for 1999. As noted above, \$2.0 million of the \$6.6 million increase is a result of having a full year's results from Helipro. After adjusting for this \$2.0 million, EBITDA for the helicopter segment is up \$4.6 million (34.1%) primarily as a result of increased revenue without a proportionate increase in overheads and improved operating efficiencies within the helicopter segment.

Management's Discussion and Analysis

of Financial Condition and Results of Operations

Results of Operations *(cont'd.)*

Corporate and other expenses as a percent of consolidated revenues were reduced from 1.7% in 1999 to 1.6% in the current year.

Comparative EBITDA is as follows:

	EBITDA (millions)	
	2000	1999
Segments		
Fixed-wing	\$ 31.7	\$ 32.3
Helicopter	20.1	13.5
Corporate and other	(4.9)	(4.5)
Total EBITDA	\$ 46.9	\$ 41.3

Amortization

Amortization for the year was \$4.8 million, up \$1.3 million from the \$3.5 million for 1999.

This increase was a result of additional investment in capital assets (\$0.9 million), a full year's amortization of goodwill on 1999 acquisitions (\$0.2 million) and the commencement of amortization on Distributor and Designated Overhaul Facility ("DDOF") licences acquired in 1999 (\$0.2 million).

Interest expense

Interest expense for the year was \$10.5 million (net of capitalized interest of \$1.0 million), up \$3.5 million from the \$7.0 million for 1999. This increase is the result of incremental interest related to 1999 business and licence acquisitions (\$1.6 million), increased average interest rates (\$1.3 million), increased investment in capital assets (\$0.7 million) and other items. The average interest rate and average debt outstanding (including bank indebtedness) for the current year was 7.4% and \$153.1 million respectively, compared to 6.4% and \$109.0 million respectively for 1999.

Income tax expense

Income tax expense for the year was \$10.9 million, up \$0.4 million from the \$10.5 million for 1999. The effective tax rate was 34% for both the current and prior year. The Corporation's statutory income tax rate was approximately 43% for the current year. The actual rate is less primarily due to lower rates in certain operating jurisdictions, the most significant being the United Kingdom and Prince Edward Island.

Management's Discussion and Analysis

of Financial Condition and Results of Operations

Results of Operations (cont'd.)

Net earnings

Net earnings for the year were \$20.7 million (\$0.73 per share), up \$0.4 million from the \$20.3 million (\$0.72 per share) for 1999.

Selected quarterly financial information

Comparative selected quarterly financial information is as follows:

Selected Quarterly Financial Information (millions, except per share amounts) (unaudited except for Totals)					
2000					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Revenue	\$ 71.7	\$ 69.5	\$ 74.4	\$ 82.0	\$ 297.6
Net earnings	\$ 4.3	\$ 5.5	\$ 4.8	\$ 6.1	\$ 20.7
Net earnings per share (basic and fully diluted)	\$ 0.15	\$ 0.19	\$ 0.17	\$ 0.22	\$ 0.73
1999					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Revenue	\$ 56.4	\$ 66.2	\$ 73.5	\$ 72.0	\$ 268.1
Net earnings	\$ 3.7	\$ 5.1	\$ 6.0	\$ 5.5	\$ 20.3
Net earnings per share (basic and fully diluted)	\$ 0.14	\$ 0.18	\$ 0.21	\$ 0.19	\$ 0.72

The first quarter is for the period January 1 to March 31, the second quarter is for the period April 1 to June 30, the third quarter is for the period July 1 to September 30 and the fourth quarter is for the period October 1 to December 31.

Management's Discussion and Analysis

of Financial Condition and Results of Operations

Liquidity and Capital Resources

The Corporation generated \$46.9 million of operating cash flow (before interest, taxes and change in non-cash working capital) in the current year, up \$5.6 million from the \$41.3 million generated for 1999. Cash used to pay interest totaled \$10.8 million, up \$3.8 million from the \$7.0 million paid in 1999. Cash taxes paid in the current year were \$7.0 million, up \$2.9 million from the \$4.1 million paid in 1999. The Corporation invested \$9.0 million in non-cash working capital in the current year compared to \$17.1 million for 1999. The current year expenditure related primarily to the continued investment required to fuel internal growth and a temporary investment required at Sigma as a result of the relocation to a new test facility. The net cash generated from operations was \$19.3 million in the current year, up \$9.8 million from the \$9.5 million generated in 1999.

At December 31, 2000 the Corporation had in place a \$47.5 million (1999 - \$47.5 million) operating facility with a syndicate of three Canadian chartered banks, a £8.0 million or \$17.9 million (1999 - £8.0 million or \$18.8 million) operating facility with a U.K. bank and other facilities (\$0.5 million) thereby giving the Corporation total credit lines of \$65.9 million. Availability of these lines is based on percentages of certain receivables and inventory.

The Corporation's short-term borrowings under these lines decreased by \$3.9 million during 2000 to a balance of \$45.0 million at December 31, 2000 compared to \$48.9 million at December 31, 1999. Outstanding letters of credit totaled \$1.1 million at December 31, 2000 compared to \$2.8 million at December 31, 1999.

The Corporation had an increase in long-term borrowings of \$14.6 million during the current year related to the construction of a new test facility at Sigma. Additionally, long-term debt increased by \$20.0 million related to the expansion of the PT6A engine line at ATI. Long-term debt also increased by \$4.7 million due to the one-time purchase of turbine engine parts. Long-term debt repayments totaled \$20.0 million for the year.

Government grants received during the year totaled \$4.1 million. These grants were obtained primarily in relation to expansion on the new PT6A engine line at ATI.

During the year the Corporation recorded contingent purchase consideration of \$2.4 million related to acquisitions completed in prior years. In 1999 the Corporation paid \$37.9 million to acquire Helipro and Alameda.

Capital expenditures of \$29.4 million were incurred in the current year related to test cell expansions (\$15.3 million), expansion related to the DDOF licences (\$9.7 million) and other items (\$4.4 million).

Management's Discussion and Analysis

of Financial Condition and Results of Operations

Liquidity and Capital Resources *(cont'd.)*

Other asset expenditures of \$9.0 million were incurred in the current year, up \$7.6 million from the \$1.4 million incurred in 1999. Current year expenditures relate to pre-operating costs and investment required to develop significant new lines of business.

At December 31, 2000 the Corporation had net working capital of \$90.8 million compared to \$92.4 million at December 31, 1999. Long-term debt (excluding current portion) totaled \$93.6 million and equity totaled \$138.7 million. At December 31, 1999 long-term debt (excluding current portion) totaled \$86.2 million and equity totaled \$115.1 million. The long-term debt to equity ratio was 0.7:1 at both December 31, 2000 and December 31, 1999. The total debt to equity ratio was 1.2:0 at December 31, 2000 compared to 1.3:1 at December 31, 1999.

The terms of certain of the Corporation's debt agreements impose operating and financial limitations on the Corporation. Such agreements limit, among other things, the Corporation's ability to increase indebtedness, create liens, make capital expenditures, engage in mergers or acquisitions, sell assets and make dividend payments. These limitations have not hampered the Corporation's ability to conduct normal operations.

The Corporation's ability to comply with any of the foregoing operating and financial limitations and with its loan repayment provisions will depend upon its future performance. This will be subject to prevailing economic conditions and other factors, some of which may be beyond the Corporation's control. Due to the relocation to a new test facility and the resulting impact on Sigma's investment in work in progress it was necessary for the Corporation, in co-operation with one of its lenders, to modify a financial covenant. The modification recognizes the temporary investment required during this transition period. Consequently, the Corporation was in compliance with all financial covenants at December 31, 2000.

The Corporation believes that normal operations will provide sufficient working capital and cash flow to meet the \$22.4 million long-term debt service requirements for the upcoming year.

The Corporation had no material capital expenditure commitments at December 31, 2000. Future capital expenditures will be funded from operations or additional debt.

Management's Discussion and Analysis

of Financial Condition and Results of Operations

Foreign Currency, Interest Rates and Other

Foreign currency

The Corporation prepares its consolidated financial statements in Canadian dollars (as described in Note 2 to the Consolidated Financial Statements).

In the current year 64% (1999 - 58%) of the Corporation's revenue was denominated in U.S. dollars and 14% (1999 - 22%) was denominated in Pounds Sterling. A significant portion of the Corporation's expenditures were also denominated in these currencies and hence a natural hedge existed for much of this exposure. However, a net exposure exists on U.S. dollar and Pound Sterling cash flows that can impact earnings as the Canadian dollar exchange rate changes in relation to these currencies. In 2001, it is estimated that a one-cent decrease in the value of the Canadian dollar in relation to these currencies would increase net income by \$0.5 million.

The Corporation does have a policy that permits the hedging of its net foreign currency cash flows. The overall approach to managing these exposures includes identifying and quantifying the exposure position, determining the desired exposure position, and designing an appropriate solution to reduce the exposure. In designing these solutions the Corporation may, from time to time, use financial derivatives. The Corporation's derivative policy prohibits the use of derivative products for speculative purposes and contains provisions to further limit their use and associated risk. The Corporation has a policy of only entering into derivative transactions with chartered banks.

There were no foreign exchange derivative products in use at December 31, 2000.

Interest rates

The Corporation monitors the financial risk exposure relating to its long-term debt portfolio. The risk exposure created by floating interest rates is managed through interest rate swap transactions with a chartered bank. In accordance with the Corporation's objective of maintaining a balance between fixed and floating interest rates, approximately 31% of the Corporation's total debt is fixed through two interest rate swap transactions with a notional amount of \$25.0 million each for a total of \$50.0 million. The swap transactions expire on November 16, 2001 and December 14, 2002. They involve the exchange of three-month bankers' acceptance floating interest rates for fixed interest rates of 5.995% and 5.57% per annum respectively. In addition to the swap transactions the Corporation has \$39.4 million of fixed interest rate debt, thereby effectively giving the Corporation a total of \$89.4 million in fixed interest rate debt, which approximates 56% of the Corporation's total debt. In 2001 it is estimated that a 1% change in interest rates would result in a \$0.4 million impact on net earnings.

Management's Discussion and Analysis

of Financial Condition and Results of Operations

Foreign Currency, Interest Rates and Other *(cont'd.)*

Other

The future success of the Corporation is heavily dependent on the recruitment and retention of key employees. While the industry as a whole is facing a personnel shortage, Vector is meeting this challenge in a number of ways, including affiliations with community colleges, in-house training programs and by creating a work environment that wins the support and loyalty of employees. These initiatives are intended to ensure a labor supply required to support continued growth.

Future success is also dependent on the retention of major customers. No customer accounts for more than 10% of the Corporation's sales. Reliance on key customers reduced during the year with the Corporation's three largest customers representing 19% (1999 - 27%) of sales and 5% (1999 - 24%) of receivables. These customers have long-standing relationships and contractual arrangements with the Corporation.

Seasonality

The Corporation does not experience significant fluctuations in earnings due to seasonality.

Change In Accounting Policies

Future income taxes

The Canadian Institute of Chartered Accountants has issued a new accounting standard with respect to future income taxes, which has been adopted by the Corporation effective January 1, 2000. The Corporation has changed from the deferral method to the liability method of accounting for future income taxes retroactively without restatement of prior period financial statements. As a result of the change the Corporation increased shareholders' equity at January 1, 2000 by \$3.8 million with a corresponding increase in net future income tax assets. The increase in net future income tax assets included a \$12.9 million income tax asset related to tax goodwill less a \$9.7 million valuation allowance related to normal business uncertainty beyond five years.

Employee future benefits

Effective January 1, 2000 the Corporation also adopted the new accounting standard with respect to employee future benefits. Adoption of this standard had no impact on the current or prior year's results or financial position.

Outlook

The outlook for Vector's businesses for 2001 is positive, consistent with the outlook for the general aviation after-market industry. The Corporation intends to continue to pursue growth both in its existing business base, through a focus on productivity, efficiency and customer service and through acquisitions when appropriate opportunities arise.

Chairman's Message

*The right
direction...*



Mark Dobbin, Chairman and CEO

2000 was a year of many accomplishments at Vector Aerospace.

Each accomplishment was a step taken in the right direction: toward our goal of becoming the foremost independent repair and overhaul provider in the aviation industry, worldwide. Every accomplishment contributed to a process that continues to build value that will yield superior returns for Vector shareholders.

Moving in the right direction in 2000 required activity on a number of strategic fronts. We continued to hone competitiveness in all our business units and to seek and enhance long-term relationships with our customers. We expanded our customer base. We made the investments

in assets required to commission the new Pratt & Whitney Canada engine licences acquired last year. We managed the changes and start-up challenges that came with 1999's acquisitions. We put our efforts into the opportunities that promised the best returns.

2000 was a year of accomplishments, a year of building. Much was achieved and we are satisfied with the results, but there is also room for great improvement in the future. In 2000, Vector posted an 11% revenue growth over 1999 and improved earnings. In the fourth quarter of the year, we began to see the benefits of our investments made in 1999 and early 2000. We are entering 2001 on the strength of a strong finish to 2000.

Vector explored several potential acquisitions through the year, but our primary growth strategy in 2000 remained focused on maximizing returns from in-house opportunities. This internal focus was reinforced by two realities. First: our responsibility to support and develop the acquisitions and expansions we made in 1999. Second: our conclusion that more could be realized this year from organic growth than could be gained from any of the external acquisitions we examined.

“We continue to believe that Vector, as an independent repair and overhaul company, is strategically well-positioned in this sector.”

2000 was a great year for our helicopter segment, ACRO and Helipro, as well as for two of our fixed-wing operations: Atlantic Turbines and Sigma Aerospace. The third fixed-wing operation, Alameda Aerospace, which we acquired late in 1999, completed its startup phase in 2000. It was challenging and we invested more than we anticipated, but we are ready to vigorously attack the market in 2001. Our new divisional management team is focused on delivering the tremendous potential we see in this business.

Sector Outlook

The aerospace industry overall continued to grow in 2000. The repair and overhaul (R&O) sector performed well and all indications are that it will continue to grow. Consequently, we continue to believe that Vector, as an independent repair and overhaul company, is strategically well-positioned in this sector.

Repair and overhaul revenue tends to be stable because of a basic characteristic of the aviation industry: the mandated requirement that

maintenance be performed on a regular, recurring basis. This ongoing maintenance requirement also explains the R&O sector's relative protection from the cyclical fluctuations of the aviation industry. For companies like Vector with a reputation for superior, dependable service, our customers' regular, recurring maintenance requirements provide a steady and predictable stream of business.

Repair and overhaul expenditures are significant financial costs for operators. Repair and overhaul activity goes to the heart of the quality and safety of their operations. Because of this, operators want and need sophisticated, well-capitalized and dependable R&O companies on whose work and service they can rely. In addition to the OEMs, only a small number of independents match these requirements. This ability to meet our customers' needs provides important balance in the market by providing our customers with a choice.

As the number of the independents in the marketplace continues to consolidate, Vector's position becomes even stronger. There are fewer viable candidates for new licence awards. Given this, Vector will continue to build upon its strong relationships with key OEMs to seek new licences.

The industry as a whole is facing a shortage of qualified personnel. Vector is meeting this challenge in a number of ways, including affiliations with community colleges, in-house training programs and, most importantly, by creating a work environment that wins the support and loyalty of our employees. I am pleased to note that we had very little turnover in 2000, and our efforts in employee relations are garnering positive attention - from our people, and from the outside world.



Events in 2000 confirmed that Vector's positioning in the aviation after-market was well suited to its mix of facilities and capabilities and its strong team of people. From this strong vantage point, we will continue to sharpen our focus on the areas of opportunity that will provide Vector with growth in the coming years.

Achievements and Opportunities

Much was accomplished at Vector in 2000, as the profiles on the following pages will illustrate. Briefly, in our helicopter segment, ACRO and Helipro are now acknowledged to be the leading independent R&O providers in the world. The logical regrouping of their products that followed the 1999 acquisition of Helipro was completed in 2000, allowing Helipro and ACRO to improve efficiency and turn times.

Even more noteworthy is what they together achieved in 2000. Thanks to the complete spectrum of services they efficiently provide,

Helipro and ACRO began gaining access to new markets. By strategically combining and focusing their marketing efforts, the two units are also winning more of the customers that generate larger contracts and yield higher margins: international militaries, public-use operators and emergency medical service providers. These same customers are less susceptible to seasonal and cyclical swings than commercial operators and add important diversification and steadiness to Vector's customer base.

Similarly, Alameda is proving to be a beneficial complement to our existing fixed-wing services and areas of expertise. The many cross-selling opportunities Alameda generated in 2000 demonstrate to us that it was truly a key building block missing from our portfolio. It is providing us with new product lines, a new customer base, and presence in a critical market in the southwestern U.S.A. All of this is having spin-off benefits for all our other operations.

The results of 2000 show that Vector is now well on its way to becoming the leading independent fixed-wing R&O provider in the world. To achieve this goal, we will continue to expand our capabilities and increase our product lines. Growth opportunities will come from the regional and corporate aircraft market, the fastest growing segment of the aerospace industry. Fractional ownership of aircraft is increasing the flight hours in this sector, and flight hours drive R&O requirements and thereby Vector's revenues. We've already moved to take advantage of this opportunity by acquiring licences for the PT6A turboprop and JT15D business jet engines. In 2001, we will begin to commission the JT15D, and seek additional new licences that will allow us to further capitalize on opportunities in this market.

The industrial gas turbine repair and overhaul market is also growing, fuelled by the widespread need for alternate sources of power. This growth is leading to a forecast shortage of repair and overhaul capabilities. The technology of these engines, from an R&O perspective, is virtually identical to other products Vector already services. In addition to our existing presence in this market we see servicing more industrial gas turbines as a major opportunity. In 2001, we will determine the best strategy for expanding our presence.

Finally, in 2000 we commercialized our IT group, established it as a stand-alone profit center and branded it Pathix. Pathix offers Vector and its other third-party customers a range of services including its core product, the software package Airsoft. This proprietary software platform services our own repair and overhaul operation and also the needs of aircraft operators around the world. It is currently at the forefront of what is available in the industry. We are constantly

improving its functionality and enhancing its capabilities. We have leveraged this asset, and its potential, and taken it forward as a commercial application.

On the Horizon

In 2000, Vector rose to the challenges of integrating our two most recent acquisitions - one (Helipro) a vibrant and strong former competitor, the other (Alameda) essentially a green-field startup. We believe our success demonstrates strong management capability. Reflecting on a track record that also includes the earlier integration of Sigma Aerospace, we reiterate with confidence our commitment to actively pursue further acquisitions. As we have said throughout our history, acquisitions will continue to play a prominent role in the growth and development of this company.

In 2001, Vector will continue to seek out and evaluate strategic acquisition opportunities. Looking ahead, we are poised to grow significantly in 2001. Our focus on productivity, efficiency, and customer service will continue. This focus is expected to again yield increased revenue, cash flow and earnings.

In summary, Vector embraces the objective of all our shareholders: to build the business on a solid foundation. Through growth and continuous improvement we will ensure that the company continues to build shareholder value in 2001, and beyond.



Mark Dobbin
Chairman

President's Report

aying the
urse...



Paul Conway, President and COO

To build a solid and enduring organization you must be committed to your vision, work to your strengths and strive for perfection. Vector Aerospace continues to maintain its stated course. We are growing our business while staying within our core competencies.

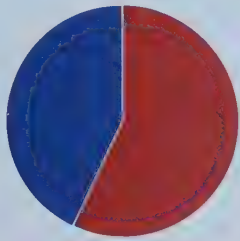
In 2000 we focused on developing the imbedded growth in the assets we acquired in 1999. We brought on line new engine licences, expanded our capabilities in aircraft component and Auxiliary Power Unit (APU) repair and overhaul, increased our test cell capabilities and opened new satellite shops. We challenged ourselves to again raise operating performance to new heights. And I am very pleased to report that there has been great success on all fronts.

In fiscal 2000, we generated net earnings of \$20.7 million (\$0.73 per share) on revenue of \$297.6 million, up from net earnings of \$20.3 million (\$0.72 per share) and revenues of \$268.1 million in 1999. Earnings before interest, taxes and amortization (EBITDA) was strong at \$46.9 million, up from \$41.3 million. Our EBITDA margin of 15.8% (1999: 15.4%) is among the best in this business.

Vector Aerospace operates principally in two repair and overhaul segments of the aviation industry: fixed-wing and helicopter. Our fixed-wing services are provided through Atlantic Turbines International (ATI) in Canada, Sigma Aerospace in the U.K., and Alameda Aerospace in the United States. North America-based ACRO and Helipro provide our helicopter repair and overhaul services.

Revenue Distribution

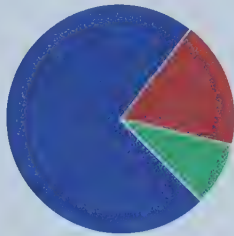
By Segment



Fixed-wing 57%

Helicopter 43%

By Product



Gas Turbine Engines 73%

Components 18%

Helicopter Airframes 9%

Fixed-wing operations generated revenues of \$169.7 million and earnings from operations were \$29.9 million. This compares with revenues of \$166.6 million and operation earnings of \$30.6 million in 1999.

A number of milestones and achievements occurred in our fixed-wing operations this year. Atlantic Turbines International took major strides in the diversification of both its product capability and customer base. Notably, it introduced the PT6A turboprop engine to complement its very successful PW100 product line. The PT6A was brought on line in an impressive nine months (which included the construction and commissioning of a new test cell).

In addition we attracted a number of PT6A-experienced technical and commercial staff, who have added considerably to our presence in the market. And we are very encouraged by the customer response to date, as PT6A inductions have exceeded original expectations. Our PW100 customer base is rapidly changing from a relatively small number of large operators to a large number of small operators. ATI is successfully penetrating these new markets and maintaining its position as the number one independent shop in the world.

Sigma Aerospace had another strong financial year in 2000. The year did, however, bring its challenges. In addition to undertaking the construction of and move to a new test-cell facility, management and staff were faced with a fuel crisis in August which caused significant economic disruption for businesses in the U.K. and parts of Europe.

We are proud to say that Sigma met these challenges and delivered solid results. Furthermore, Sigma's enhanced flexibility and efficiency, and its new capability to service and test more engine lines, will enable it to compete even more effectively in the future, and will lead to more long-term business opportunities.

At Alameda Aerospace, in what was essentially a start-up year, activity focused on bringing the facility to full commercial production and putting in place a management and organizational structure to prepare for the aggressive pursuit of market opportunities in 2001. Alameda's services include the repair and overhaul of accessories, avionics, instruments and APUs, all of which afford great opportunity for growth. Having the potential for many common customers with other Vector divisions, Alameda complements and enhances the package of services offered by Vector.



Achievements in the helicopter repair and overhaul sector were very strong in 2000. Revenues were up \$26.4 million to \$127.9 million from \$101.5 million in 1999. EBITDA margins continued to improve (15.7% vs. 13.3% in 1999). Earning from operations were \$17.8 million, up \$5.7 million from \$12.1 million generated in 1999. The combination and rationalization of product lines at ACRO and Helipro makes Vector the recognized leading helicopter R&O entity, worldwide.

Each of our locations must maintain Vector's high standards, and is given the mandate to: tailor your structure and focus your service to satisfy the unique requirements of your customers. It's part of Vector's success, and remains part of our go-forward strategy."

At ACRO, we specialize in helicopter engine and component overhaul. In 2000 ACRO introduced the PT6T, a turboshaft engine, to its already comprehensive approved line of helicopter engine licences. ACRO also expanded its customer base, hired all of its first graduating class of internal trainees, and was given the highly regarded British Columbia Quality Council's "Award of Distinction for People Focus."

Helipro continued to expand its niche position as the number one independent airframe R&O provider in the world. While developing and refining its proprietary airframe repair and enhancement schemes, Helipro is adding value for its customers. The economic lives of helicopters are being extended and performance improved. Helipro is winning new work for itself, particularly with foreign militaries. Additionally, as Helipro attracts work it results in the added benefit of flow-through work for its helicopter counterpart - ACRO.

In addition to these fixed-wing and helicopter activities, we acknowledged the value of our unique and proven aviation software capabilities, and in June turned our internal IT provider into a commercial entity: Pathix. The time was opportune to tap Pathix's considerable marketplace potential. In addition to contributing to shareholder value, Pathix will continue to raise Vector's own IT capability and add value to all parts of the Company.

As for our overall objectives, they remain a constant: to grow the business and be "Best In Class." Specifically, our operational objectives are to:

- build organic growth by improving internal efficiencies and business practices
- develop and implement a long-term human resources plan
- expand Vector's portfolio of product licences
- further diversify our customer base
- improve our financial returns through enhanced management of working capital

In 2000 we made great progress toward these objectives. We applied resources and skills to bring the imbedded growth of new engine licences and the Alameda acquisition on line as quickly as possible. We broadened our global reach with three new shops in North America and a larger sales and marketing network in Europe, South America and Asia. We further developed our culture of continual improvement. We refined our areas of expertise and expanded our market coverage. And we reinforced and built on our reputation.

To be "Best In Class," we must provide our customers with service that meets or exceeds desired quality, with quick response times and the best commercial terms. We deliver this by knowing our customers and remaining sensitive



to their needs - critical elements in forming and keeping solid customer relationships. Customers, for their part, are responding by giving us more business.

We took significant, sure steps in the right direction at Vector Aerospace in 2000. We have been busy and because of our efforts Vector is stronger and more diverse. And we remain on course. We have and will continue to build a solid foundation to support and grow within our core competencies. With new licences, locations and our motivated staff, we will guide and shape Vector Aerospace to be the number one independent R&O company in the world.

A major factor in our achievements of 2000, as in other years, was the dependability of our work force and our employees' excellent and sustained contribution to the company.

We are proud to say that staff turnover within the Vector group of companies is well below

industry norms, providing a strategic advantage. This is a credit to the efforts and programs implemented by Vector to develop and recognize the talent of all its employees.

It is only fitting to end this report by acknowledging and applauding these dedicated people. In 2000 - as they have in the past - Vector employees consistently gave their ongoing support, demonstrated willingness to accept change, and provided valued and valuable input into improving the way we do business. We could not be Best In Class without the best people.

Paul Conway
President

John MacDougall
President



Not yet a decade old, Atlantic Turbines International (ATI) has established both a sterling reputation for quality and an excellent work force. Together, they contributed to the milestones ATI achieved in 2000.

Created in 1992 in Prince Edward Island (P.E.I.), Canada, ATI focused its early efforts on the Pratt & Whitney Canada PW100 engine, a turboprop that powers many of the aircraft used by regional and commuter airlines worldwide. ATI quickly acquired a solid book of steady business with the PW100, primarily with commercial operators in the U.S.A. Then, year after year, it built an enviable reputation - for quality work, for excellent customer service, and for the quickest repair and overhaul turn times in the industry. In 2000, ATI serviced its 2,000th PW100 engine. Customer loyalty and volume continue to grow.

ATI also demonstrated in 2000 - with great success - how well it could diversify its capability. It brought

the Pratt & Whitney Canada PT6A engine on line, a process that involved facilities expansion, building a test cell, earning regulatory and OEM approvals, and winning marketplace acceptance. It did all this in nine months - three months ahead of schedule.

The Distributor and Designated Overhaul Facility (DDOF) licence for the PT6A was acquired late in 1999. The expansion to accommodate it was completed in 2000. The response from an industry well aware of ATI's excellent repair and overhaul reputation was positive and immediate. Rapid completion of the test cell and timely commissioning of the line together with a solid marketing effort enabled the return on the PT6A investment to begin even earlier than anticipated.

The PT6A is a regional-airline and corporate-aircraft turboprop engine. The largest concentration of these operators is in the U.S.A. So in 2000, ATI also created two regional service centres in Dallas and Atlanta to augment the overhaul facility and test cells in P.E.I. These service centres provide light repair and field service capabilities between major overhauls. They are one more way ATI is providing the high-quality rapid customer service that is synonymous with its name.

*growing with the
dynamic regional
and corporate
airline markets...*

ATI's accomplishments this year, as in previous years, rest on the dedication of a reliable, highly skilled workforce. ATI recruits the best, and insists on solid training. It runs its own internal apprenticeship program and works with Holland College, a technical school in P.E.I. - both initiatives help ensure ATI will meet the expansion demands of current and projected business.

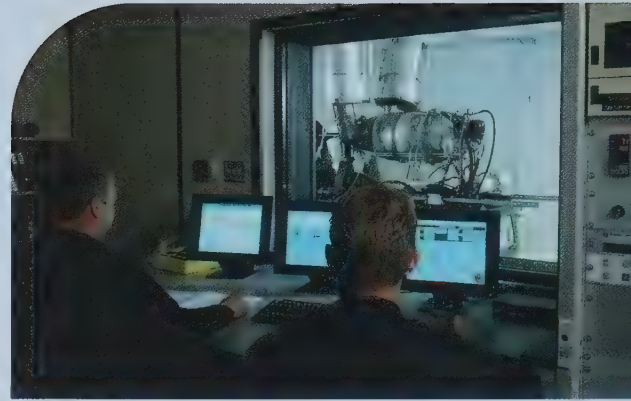
"Our customers tell us we have the fastest turn times in the world. We tell them it's because of our dedicated work force and their productivity. Our success is all based on our people."

By the end of 2000, the ATI team had grown to more than 200 people, up substantially from the original core of 30. Even more significantly, ATI's investment in and focus on people has yielded long-term results: the turnover rate at ATI has been less than 1%. Consistency, new and broadening skills, and mutual loyalty have all added greatly to the level of service the ATI team provides, as well as to its reputation for knowledge and responsiveness.

What's next? In the PW100 marketplace, ATI has recognized and dealt proactively with a trend in the North American and global regional airline

Number 2,000 in 2000

November 22: Staff members - some of whom worked on ATI's first engine in 1991 - stop to celebrate the completed overhaul of the 2,000th PW100 engine to pass through ATI's doors. The engine itself - a PW121 type used on the Dash 8 - belongs to one of ATI's new European customers, Wideroe, in Norway.



industry - an industry it knows well. In recent years, the small number of large-fleet operators in America has gradually become a large number of small-fleet operators around the world. ATI is successfully pursuing - and winning - new PW100 customers as this transition takes place.

In a second wave of change, large regional airlines in the United States have been gradually modifying their fleets, switching from turbo-prop to jet aircraft. The turboprop aircraft, in turn, are being acquired by smaller operators in the U.S.A. and outside North America. ATI's response: expand its PW100 marketing focus to capture these new market opportunities. In 2000, additional international sales representatives began winning new customers in Europe, Africa, South America, and Asia.

Finally, the immediate strong demand for ATI's new product capability - the PT6A - shows that ATI's reputation is solid and crosses product lines. Diversified capability is also providing opportunities for growth in new markets, which ATI will continue to explore and capitalize on.

A highly skilled, dedicated workforce. A reputation for superior work and customer service. The fastest turn times in the business. A solid foundation product line in the PW100, new PT6A capability in 2000, and a dedication to pursue further product lines. Expanded field service. And a strategic and successful response to the changing regional and corporate airline industry. This is the ATI success story today, and tomorrow.



Sigma Aerospace's roots go back to 1935 and a repair and overhaul shop established in Croydon, England. Its location gave the operation an often-noted connection to aviation heritage: Croydon was the site of Britain's first international airport. For more than 60 years the business evolved and grew with the industry. In 1998 it was acquired and transformed into Sigma Aerospace. Today, the people at Sigma are continuing to build on historical strengths, with a keen eye on the future.

*Solid player
international
military and
commercial
markets...*

Sigma's current success and its future promise begin with its solid core of established business. Sigma is an acknowledged leader in the international civil and military gas turbine repair and overhaul markets. Its extensive rework capabilities support all its product lines. These include the Rolls Royce T56 military turboprop engine which is used on Hercules aircraft, as well as its commercial variant the 501D, and its industrial variant, the 501K. Capabilities also include the Rolls Royce turboprop Dart engine, the turbofan Conway engine, and a variety of auxiliary services.

Sigma has a steady revenue stream that is supported by long-term contracts with established customers, including Britain's Royal

Air Force, the Royal Saudi Air Force, the Belgian Air Force, and other international militaries. Since joining Vector, Sigma has built on these strengths, achieving significant efficiency improvements. This was stimulated by an analysis and refashioning of internal procedures, including an early shift to a business-cell structure. Internal enhancements have resulted in a 30% increase in business in the past 30 months.

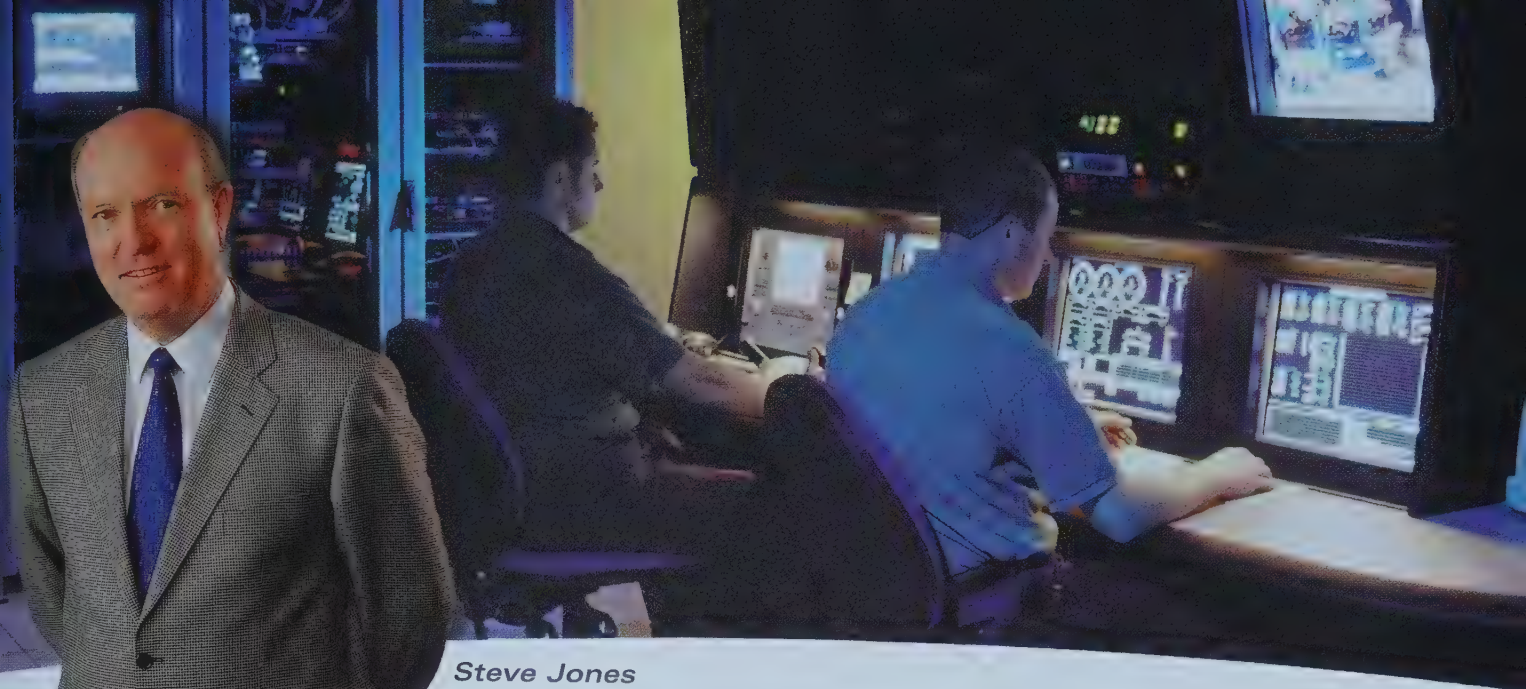
Sigma's recent focus on facility and systems improvement has allowed it to realize more fully the potential of its technically skilled workforce, shop capabilities, and current product lines. Among other successes, the Sigma rework shop - operating as a separate business cell - is winning new third-party business. Sigma's long-standing relationships with military customers have been enhanced by improvements in service and turn times.

In addition to realizing excellent organic growth from all these efforts in 2000, Sigma also completed a brand new multi-cell testing facility, which had its official opening in January, 2001. The facility incorporates the latest diagnostic and testing technology. It enhances existing customer business, increases Sigma's capabilities, and provides Sigma with a significant new vehicle for growth.

Where will the new opportunities for growth come from?

First, from continued improvements in internal practices. The changes at Sigma since 1998 have produced tremendous improvements in efficiency and productivity. Analysis and ongoing exploration of ways to improve are now an integral part of the Sigma culture and drive for excellence. They will continue to contribute positively to Sigma's operations and margins.





Steve Jones
Managing Director

Second, from Sigma's excellent team. Numbering more than 400, their enthusiasm is demonstrated by their commitment to earn an "Investors in People" certification in 2001.

This nationally recognized standard will publicly acknowledge Sigma's real and ongoing efforts in the training, empowerment, and acknowledgement of its employees.

"We are experienced. We know our products and the marketplace extremely well. As part of Vector, we've sharpened our focus on internal best practices and customer service. All this will yield even better return for Vector's shareholders."

Third, by responding to industry developments and diversifying its revenue base. Demand in Europe for commercial jet engine R&O continues to grow, while industry capacity there is reaching its maximum. With the completion of its new multi-cell test facility, Sigma will seize opportunities to increase business in its existing product lines, and also add new ones - in the commercial, military and industrial-turbine markets.

And finally, growth will come from a continued emphasis on and refinement of customer service. Sigma prides itself on its flexibility in responding to customer demands. It will focus on improving responsiveness even more, and leverage its excellent reputation for customer service to win new business.

Sigma has a strong history, a solid book of business, distinct market opportunities, a new test cell facility, and an excellent team committed to ongoing improvement. Taken together, they prepare Sigma to extend its successful track record well into the future.

Managing the Future

As part of its team development approach, Sigma sponsors experienced, promising managers in the Cranfield University Fellowship program. A leading U.K. business school, Cranfield offers an intensive course that builds technical and managerial skills, and provides a lifetime support network to graduating Fellows - and so gives them access to the latest best-practice techniques.





Walt Howell
President

ALAMEDA aerospace

Alameda Aerospace was created late in 1999 when Vector acquired the assets of two small Oakland (CA)-based repair and overhaul companies. The capabilities acquired included component, accessory, avionics and auxiliary power unit repair and overall.

In reality Alameda was a green-field start-up requiring us to completely rebuild the business. This rebuilding, much of which took place in 2000, included re-branding the company, moving to new premises, putting in place new management and assembling a skilled technical team, refining Alameda's product mix, rewriting internal manuals, commissioning equipment, and implementing the Vector IT platform. All of this was aimed at achieving one goal: focusing Alameda's strengths to unlock its full potential.

The process was expected to take a year. The challenges were greater than anticipated but much was accomplished in 2000, and the

good news is that Alameda's opportunities and future now look even brighter than anticipated.

The achievements in 2000 began with the completion of the move into 115,000 square feet of well-equipped leased shop space (in two facilities) on the former Alameda Naval Airbase near San Francisco. The new location gives Alameda top-quality facilities at favourable long-term rates, and room to grow. It took time to commission the plant and its equipment. Alameda acquired certification with key agencies, including America's FAA, Europe's JAA, Indonesia's DGAC, China's CAAC, and the Philippine Air Agency certification authority.

The excellent (and still growing) technical and management team was assembled from a core of employees from the former companies, and through active recruitment. Many of Alameda's technicians have a military background, and received excellent training during their time of service. Its new executives bring a wealth of experience and a record of achievement in the industry.

External relationship building with suppliers, customers, and international sales representatives occurred throughout the whole year, with

*...NO capability for
...line and military
...cessories,
...components and
...auxiliary power
...units ...*

significant success arriving in the latter half of 2000. We're proud to say that Alameda is beginning to attract new clients.

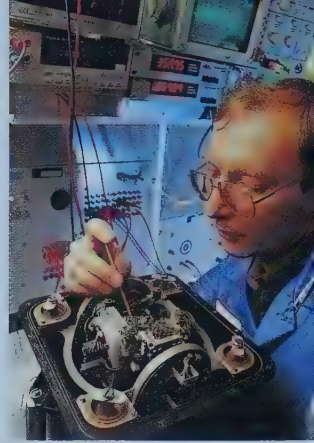
By the close of 2000, customers included international airline companies and cargo carriers. Capabilities included a wide range of products associated with Boeing, Airbus, Lockheed, McDonnell Douglas, and other aircraft. In August of 2000, a contract was signed with Raytheon for more than 300 components on the U.S. Navy and Air Force C9 aircraft - one of several contracts that will support Alameda's growth. Alameda also added new repair, overhaul and test capability for the engine-driven compressor (EDC) on the P3 military aircraft, as well as for generators and constant-speed drives for all Boeing (and the former Douglas) narrow-body aircraft, which require special expertise to repair and overhaul.

"We now have a strong foundation, and a sound plan for getting where we want to go. Next, we will deliver."

It was a busy first year, and one that clearly positions Alameda to compete in the marketplace, and thrive. In Alameda, Vector has established a North American base for its fixed-wing operations. Alameda's current and future capabilities are strategically filling a gap in Vector's core services, providing it with a vehicle for pursuing new opportunities in the industry.

The Can-Do Approach

Like his Alameda colleagues, Sergey Shaposhnik doesn't like "can't be done." So when one OEM told an Alameda customer their \$45,000 gyroscope was "beyond economical repair," they let Alameda take a look. Sergey fixed it in three days, and the customer paid only \$3,200. Now they send Alameda all their gyroscopes. Can-do attitude? An Alameda trademark.



What lies ahead? Building an ever-stronger book of business, which we have every confidence Alameda can ably support. Opportunities to achieve this have been identified in a number of areas. The first is internal: it will come with a continuing focus on key competencies - a "Top 100" approach. In other words, Alameda will continue to identify and emphasize key accessories and components on which its price and turn times are exemplary. Alameda's turn times are already setting industry standards - and the word is out.

Alameda will also target four main aircraft at which it excels in component repair and overhaul: the commercial DC9 and 737, and the military P3 and C130. Opportunities to service cross-over products and capabilities - parts that are similar on the military and commercial models of each aircraft - will also be pursued.

Auxiliary power units (APUs) have been identified as a market area with growth potential. Alameda will also promote its capability to repair generators. There are at least three of these on every jet aircraft and the market is not currently well served. The key to winning these contracts is turn time and Alameda has already proven it can compete with the best.

A well-equipped facility. A good team. Hard work. Focus, drive, and results. It's just the beginning for Alameda.



ACRO



ACRO is recognized in the industry as a worldwide leader in repair and overhaul of helicopter engines and dynamic components, offering a breadth of services unmatched by its competition. It is also - in its culture, in its energy, in its continual drive to improve - a dynamic component of Vector's story.

*... helicopter engine
and dynamic
component repair
& overhaul ...*

ACRO's customers are well served by a workforce of nearly 400 highly trained and motivated people at three locations near Canada's Vancouver International Airport. ACRO's facilities are world-class. The largest, at Richmond, B.C., is particularly notable because it was designed and built specifically to support the repair and overhaul of helicopter engines and components.



ACRO has an extensive portfolio of engine licences. Notable in 2000, ACRO performed assembly, inspection, and testing under contract from General Electric for their GE T700, which will be installed in Canada's new military helicopter, the Cormorant. ACRO was also commissioned as a Pratt & Whitney Canada DDOF for the PT6T engine. Test cell upgrades were completed in 2000 to handle both the PT6T and the T700.

ACRO's last two years have been particularly strong, largely because of the restructuring into

business cells, which has improved performance, and then by the integration of Helipro into Vector. The ensuing grouping of helicopter resources allowed ACRO to assess work flow, shop space allocation, and other business processes. Internal business cells, product lines, processes, and facilities - already highly efficient - were further rationalized. The changes have yielded tremendous results. Efficiency and turn times continue to improve. In 2000, ACRO experienced strong growth in almost all product lines, and 17% growth in revenue.

ACRO's ongoing commitment to its people is a key aspect of its success. The philosophy? Demonstrate respect and appreciation, and create an environment where people enjoy work, and are given opportunities to grow, develop and succeed. In 2000, ACRO's outstanding human resources efforts were acknowledged by the Quality Council of British Columbia: it honoured ACRO with its annual Award of Distinction for its focus on people.

This approach helps ACRO respond to a business reality: ongoing success relies on a continued ability to attract and keep a good team. Through recruitment and its own Canadian Aviation Maintenance Council (CAMC)-accredited training program, ACRO aims to add more than 40 new people in 2001. This will help it capitalize on the next opportunities to come within its grasp.

What are the next growth areas? ACRO does most of its business in the North American market, which has 45% of the world's helicopters. Growth will come from expanding its traditional customer base. Outsourcing of services continues, and is providing new opportunities to support public-use, government, and military helicopter operators - sizable customers who seek the sophistication and expertise ACRO can provide, and who establish long-term relationships.



Michael Coughlin
President

Expansion of ACRO's customer base is already showing results. In 2000, ACRO was awarded a U.S. Navy contract for small components and hydraulic units. This multi-year contract will generate substantial revenue for ACRO that will go forward for several years. In combination with Helipro, with the corporate support and expertise of Vector, and by using its reputation as a world leader in engine and dynamic component R&O, ACRO can and will actively pursue more such opportunities in 2001.

"We are committed to delivering world-class customer service. We want to delight our customers, be world leaders in customer satisfaction."

Fifty-five percent of the world's helicopters operate outside North America, so great opportunities to win new business exist there as well. In South America, in Europe, in Asia, ACRO is using its strong reputation and presence in North America to win new work from global customers among military, commercial and non-commercial operators.

What else will fuel ongoing performance and growth? Continued focus on employee satisfaction and training. Delivering world-class customer service - in turn time, quality, competitiveness, and customer responsiveness. Striving for

perfection and making continuous improvement a way of life. And by keeping a well-informed eye on shareholder value and solid management of working capital.

ACRO's team is world-class and committed to customer satisfaction. Its R&O capability is wide and deep. Quality is high. The drive to continually improve is fierce. And new business opportunities abound. For ACRO, the sky is the limit.

People Focus



Michael Coughlin and nine ACRO employees accept the 2000 Award of Distinction for People Focus from the British Columbia Quality Council. To win, ACRO demonstrated superior and innovative employee relations and broad employee satisfaction. These same world-class standards are also helping ACRO become the sector's "employer of choice."



Sandy Strukoff
President

HELIPRO

"The Helicopter Support Professionals"

*airframe &
avionics R&O -
framework
for the Vector
helicopter story...*

Helipro joined Vector in 1999. Founded 11 years earlier by Sandy Strukoff and Hugh Whitfield, Helipro grew from an initial staff of just two, to a team of 140 working from facilities across North America. It was a dynamic, innovative, successful helicopter repair & overhaul company - but it had grown as far as it could. To achieve more, it needed additional attributes: greater fiscal authority, an expanded corporate infrastructure, a platform from which to access new markets, and long-term support for its growth strategies. Vector brought these elements to Helipro and this year in particular, the results have been extremely positive for both.

Helipro's repair and overhaul facilities are located in key centres in Canada and the U.S. - Richmond B.C. and Bellingham, Washington. It also has a sales office in California. In 2000, it opened a new field service centre in Poughkeepsie, New York, an excellent location for servicing the world's largest concentration of corporate helicopters.

After Helipro's acquisition by Vector, rationalization of products, services, and facilities occurred at both Helipro and ACRO. As a result, Helipro

successfully refined its focus to two major R&O competencies: helicopter airframes and avionics (wiring, electronics and flight instrumentation).

Productivity and results of this realignment have been excellent. Helipro is still dynamic, innovative, and successful. Now it is also extremely focused and has a solid fiscal foundation, good numbers, and a clear trajectory for growth. In addition, it is leveraging its affiliation with ACRO to expand business opportunities. Together, Helipro and ACRO offer existing, new and potential customers a complete spectrum of R&O products and services.

From day one, Helipro's emphasis on strong customer loyalty helped it build a worldwide customer base. But much of the work on its key aircraft - the Sikorsky S61 and S76 and the light-to-medium Bell helicopters, for example - came in on an ad hoc basis. The big contracts remained outside Helipro's fiscal grasp. That's now changed.

Recent efforts at Helipro have been on winning large, long-term contracts that provide a dependable base line of revenue. From inside Vector, Helipro together with ACRO can and does bid on larger contracts with military, public-use agency and commercial operators. For example subsequent to year end, Helipro and ACRO won a \$15.5 million helicopter refurbishment contract from Venezuela. The future is bright for winning more such contracts, which will continue to increase Helipro's revenues.

"Helipro will continue to develop and market innovative and economical solutions that will keep older helicopters operating safely and efficiently into the future."

Though there have been many improvements at Helipro since 1999, key positive characteristics of its original corporate identity and success were retained. The company's entire core management team and its technical team are still with Helipro. In addition, highly experienced and skilled new-to-Helipro team members have been added, further deepening the workforce expertise.

Helipro continues to pursue innovative ways to package its skills and match its technical expertise and craftsmanship to the needs of the market. Helipro can take helicopter workhorses - the Sikorsky S-61N and S61L, for example - adapt their structures to suit new tasks, upgrade their avionics with more recent technology, and offer a "new" version of older aircraft, extending their useful lives much farther into the future. Providing this kind of creative option is timely in a market where new helicopter sales are slowing and demands to use older aircraft in new ways are increasing.

Basically, Helipro's flair for forward thinking and knowledge of the industry have helped it identify upcoming market demands. In addition, its depth

of expertise and ability to devise technically advanced solutions enable it to develop and certify products that meet those demands. Helipro will continue to do both.

The personal, enthusiastic style of Helipro's customer service also endures - a major plus in the small world of the aviation industry. In 2000, long-standing relationships were strengthened, new customers were attracted and secured - in the Middle East, in Africa, and at home in North America. And Helipro continues to provide fast, effective, worldwide field support, 24 hours a day, seven days a week.

Helipro's goal is to become the largest provider - in the world - of avionic and airframe R&O services to commercial and military helicopters. In association with Vector, it has been empowered to proceed. Helipro is feeding its spirit of entrepreneurship, increasing its worldwide community of loyal customers, and keeping its eye out for opportunity.

In summary - Helipro's reach no longer exceeds its grasp, and the results are all positive for customers, employees, and Vector colleagues and shareholders.

Teamwork & Vision

High-tech expertise is a distinctive Helipro capability and continues to make Helipro a valuable joint-venture partner for leading-edge equipment makers. A good example from 2000? Helipro designed the installation and systems integration of BAE Systems' Night Vision and Heads-up Display into the Canadian Forces CH-146 Griffon helicopters. Installation starts in 2001.

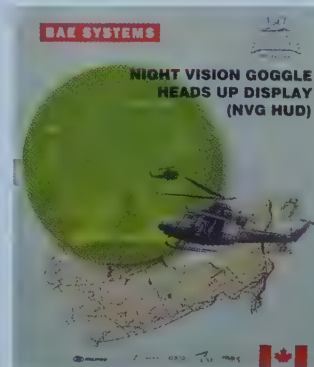


Photo courtesy of BAE SYSTEMS



creating
competitive
advantage through
knowledge
management ...

Pathix grew out of the need to provide IT support to Vector's various operations and to its corporate headquarters. By 2000 - five million lines of code and the management of 600 aircraft later - Vector was positioning this internal treasure to unlock even more value for its shareholders.

Based in St. John's, Newfoundland, the Pathix staff have developed knowledge-management solutions which are used by a variety of internal and external customers in the international aviation industry. Most of this is accomplished via their application software package, Airsoft.

"Our focus is to keep on moving our aviation management solution to higher levels in managing operations and repair and overhaul. The Internet is a fantastic medium for delivering Pathix solutions to the global aviation sector."

Airsoft is a line of business solution adaptable to a wide range of aviation companies. These include civilian, military, fixed-wing, helicopter, and cargo operators and maintenance, repair and overhaul providers. The product has been in continual evolution since it was created in the early 1990s. Since 1999, however, it has provided a competitive advantage to all Vector Aerospace repair and overhaul locations, to other R&O providers who came asking about it, and to CHC Helicopter Corporation, the world's largest helicopter operator. The Pathix

team customizes the software for each customer's use, and can take on the entire information management process, leaving customers free to focus on what they do best.

Airsoft provides a modular, fully integrated solution for collecting and processing data about resources and transactions. Specifically, Airsoft tracks daily operations, maintenance schedules and flying hours - and the status of any R&O job - and performs cost analyses. It can handle invoicing and information critical to accounting procedures. And, through interfacing with other applications, it contributes e-mail, faxing, Electronic Data Interchange and other communications functions. To support and enhance this work, including ongoing software evolution, Pathix maintains strategic alliances with proven technology leaders: IBM™, Lotus™, Data Mirror, Mortice Kern Systems (MKS), and Dimensional Insight.

The team at Pathix understands the aviation industry, and it knows good business practices. It also knows that technology can sometimes fail - so Pathix expertise and service also includes the provision of complete disaster-recovery procedures. Its fail-safes keep customers' businesses moving forward even in the face of the unexpected.

In 2001, Airsoft will evolve again, as its Application Service Provider (ASP) version (with a graphical presentation) is completed. IBM Canada announced in November, 2000, that it would provide the technology infrastructure behind this new Web-based development. By making its proven information-management



Trevor Lewis
Vice President and General Manager

solution available to smaller companies over the Internet, Pathix will be providing a cost-effective tool for an even larger number of smaller firms in the aviation industry. These are firms that do not want to invest time and capital into developing their own programs - firms that need information technology but are glad to have someone manage it off-site. Pathix has so far been a self-financing unit. This evolutionary step will help it show even greater returns.

Pathix's route to information management is through knowledge. The creative Pathix staff know about the aviation industry. They come from an aviation culture. And they know the new technologies. This is why we say that Pathix is where ideas and technology meet.

Vector's Capabilities

Gas Turbine Engines

OEM	Engine Model	Installed on Aircraft Type
Atlantic Turbines		
Pratt & Whitney Canada	PW100 Series	deHavilland - Dash 8 Series 100, 200, 300 ATR (Regional) - Series 42, 72 Embraer 120; Dornier 328
	PT6A Series	Raytheon - King Air, Beech 99, Beech 1900 deHavilland - DH6 Twin Otter
	JT15D Series	Cessna Citation; Raytheon Beechcraft

Alameda Aerospace

Allied Signal	GTCP 36 and 85 Series APUs	Boeing 727, DC9, MD80, 737 - 100, 200, 300, 400, 500 Lockheed - C130 Hercules, P3 Orion Fokker - F28, 70, 100, ATP, Jet Stream 31, CRJ 100-200 BAe 146, Saab 340, EMB 120-145, ATR 42-72 Various Falcon, Cessna, Lear and other business jets
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ACRO Aerospace

Pratt & Whitney Canada	PT6T Series	Bell - 212, 412; Sikorsky - S-58T
Turbomeca	Arriel 1	Sikorsky - S-76A+, S-76C Eurocopter - AS 365N2, BK 117C1, AS350 Series Agusta - A109K2
General Electric	T58 (military) CT58 (civil) T64 T700	Boeing - Labrador; Sikorsky - Sea King Sikorsky - S61; Boeing H46 deHavilland - Buffalo Westland/Agusta - Cormorant
Rolls-Royce	RR 250	MD Helicopters - 500E, 520N, 600N, 500C, 500D Bell - 206, 407 Eurocopter - AS350, AS355, BO105 Sikorsky - S-76A; Soloy Hiller

SIGMA Aerospace

Rolls-Royce	Dart Series 6, 7, 8, 10	Friendship FH227; Hawker Siddley HS748 Gulfstream G1; Fokker F27 NAMC YS11, Lockheed - Convair 640
	Conway	BAe - VC10
	Allison T56 (military)	Lockheed - C130 Hercules, P3 Orion
	Allison 501D (civil)	Lockheed L188 Electra, L100; Convair 580
Honeywell	Allison 501K	Industrial Turbine
	ALF502, LF507 (engine testing)	BAe 146

Accessories

OEM	Component	Installed on Aircraft Type
ACRO Aerospace		
Sikorsky	Fuel, hydraulic & electrical accessories	Sikorsky - S-76, S-61, & military derivatives
Bell		Bell - 204, 205, 206, 206L, 212, 214, 407, 412
Eurocopter		Eurocopter - AS350 (AStar/Ecureuil), AS355 (Twin Star/Twin Ecureuil)
Breeze-Eastern		All Bell
Chandler Evans		Sikorsky - S-76, S-61
Honeywell		Eurocopter - AS350 (AStar/Ecureuil), AS355 (Twin Star/Twin Ecureuil)

Dynamic Components

OEM	Component	Installed on Aircraft Type
ACRO Aerospace		
Sikorsky	All drive train dynamic components	Sikorsky - S-76, S-61 & military derivatives
Bell		Bell - 204, 205, 206, 206L, 212, 214, 407, 412
Eurocopter		Eurocopter - AS350 (AStar/Ecureuil), AS355 (TwinStar/Twin Ecureuil)

Airframe & Other Maintenance

OEM	Component	Installed on Aircraft Type
Helipro		
Sikorsky	Airframe structures, avionics, wiring, rotor	Sikorsky - S-76, S-61 & military derivatives
Bell	blades, composite repair, line maintenance, major	Bell - 204, 205, 206, 206L, 212, 214, 407, 412, UH-1 Series, Super Huey
Eurocopter	& depot level maintenance, manufacturing & fabrication	Eurocopter - AS350 (AStar/Ecureuil), AS355 (TwinStar/Twin Ecureuil)

SIGMA Aerospace

Hamilton Standard	54H60 propeller	Lockheed - C130 Hercules, L100, P3 Orion
Dowty Rotol	Various propellers including R193, R212, R184 & R257	Fokker F27
		Hawker Siddley HS748
		Gulfstream G1
		Friendship FH227

Alameda Aerospace

Various	Avionics, instruments & accessories	Boeing, Airbus, Lockheed, BAe, Lear, deHavilland, Bombardier, Fokker, Saab, Sikorsky, McDonnell Douglas, Beech, Fairchild, CASA
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Corporate Information

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Hon. Frank D. Moores, LL.D.

Chairman & CEO
SSF (Holdings) Inc.
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Basile E. Papaevangelou

TEC (The Executive Committee)
Chairman

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Chairman & Chief
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Paul J. Conway

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Maxwell Parsons, CA

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